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## CHECKLIST FOR A CHURCH ENDOWMENT POLICY

*Churches that are considering the creation of an endowment policy or reviewing existing policies may find this checklist helpful in addressing many of the issues that are inherent in this subject matter.*

- 1. A Mission Statement for the Church Endowment. This brief statement, outlining the purpose of the endowment, will often reflect the church's mission and vision that it has developed in its long-range or strategic plan. It is important that it be voted on at a charge conference or all-church meeting.
- 2. The name of the Endowment(s) and its sub-accounts.
- 3. A preamble outlining the general purposes or objectives of the Endowment program.
- 4. How to:
  - a. Amend
  - b. Modify
  - c. Invade
  - d. Etc.
- 5. Statements about distribution in case your church merges or becomes defunct should reflect the current *Book of Discipline*.
- 6. Identification of what committee or what officers have general responsibility for the church's Endowment(s), e.g. Permanent Endowment Fund Committee ¶2533.
- 7. Definition of terms, i.e., "What does this church mean by Endowment?" In accounting terms, an Endowment is made up of monies in which the principal cannot be spent and the income from the assets shall be spent.

Other words to define:

- Memorial Funds
- Contingent Funds
- Emergency Funds
- Discretionary Funds
- Special Funds

Historic Dollar Value or original gift means the aggregate of:

- a. Dollar value when fund became an endowment
- b. Each subsequent donation
- c. Each accumulation made in accordance with gift document

- 8. Provision for accepting or rejecting gifts.
- 9. Provision for disposition of property when given to the church. Generally items should be sold as soon as possible except in unique situations.
- 10. Direction and/or placement of undesignated gifts (dependent on size)
- 11. Relief from liability for Trustees except for obvious misdeeds.
- 12. A paragraph regarding conflict of interest.

## INVESTING ISSUES

- 1. Delineate responsibilities of the committee or people responsible for endowments.
- 2. Investment management deals with three major elements – Income, Growth, and Security. Each church needs to work through its philosophy and degree of emphasis on these characteristics and ***who is to provide on-going supervision:***
  - a. Investment Committee
  - b. Board of Trustees
  - c. Permanent Endowment Fund Committee
- 3. Selecting the United Methodist Foundation of New England (the Foundation) as your investment administrator offers you:
  - ◆ Trusted qualified experts who understand the specific needs of a U.M. church and the closely watched management of your fund
  - ◆ A competitive rate of return
  - ◆ Socially responsible investing (excludes tobacco and alcohol products, gambling, armaments, pornography, abusive human rights issues)
  - ◆ Broad options – a family of six United Methodist funds
  - ◆ Foundation loan program to assist UM churches and conference agencies for repairs, building, and other capital projects.
- 4. A review of investment products offered by the Foundation:
  - ◆ Money Market
  - ◆ Bond Fund
  - ◆ Stock Fund
  - ◆ Balanced Income Fund
  - ◆ Balanced Growth Fund
  - ◆ Endowment Fund

A discussion of the risks involved in each needs to take place periodically.
- 5. % diversification of investments – Stock, Bond, & Cash (regarding liquidity).
- 6. Measurement of Performance of Foundation Funds – S&P 500 Index & LB

## REPORTING PROCESS

- 1. Policy should be voted on by the congregation of a Charge or Church Conference.
- 2. Endowment Funds should be audited periodically. Shall expense be borne by church budget or the Endowment Funds?
- 3. Separate report (from annual budget, etc.) to the Congregation at least annually as to principal, income, and spending as well as number of bequests and other gifts received. Acknowledgment of donors (if permitted).
- 4. Means of recognition of donors; for example, membership in the Church's legacy society such as *The John Wesley Society*.
- 5. How do we publicize or communicate the impact/results of our spending?
- 6. How do we attract new giving to our Endowments?
  - ◆ Planned Giving
  - ◆ Capital Funds Campaigns
  - ◆ Bequests from Wills

Can the church spend some of its Endowment income on such educational or promotional programs?

## SPENDING FROM ENDOWMENTS

*Christians like to give, and they are more likely to give if they have a sense that their "dollars" will be spent in areas of church life, mission and ministry that are of interest to them. The policy should deal with the ever-present tension between short-term needs vs. long-term goals.*

- 1. Will spending be based on:
  - a. Annual Yield (dividends and interest)
  - b. Total Return of Portfolio (yield plus capital appreciation)
  - c. Net Income after \_\_\_\_\_
  - d. Percentage being reinvested
  - e. Fixed amount being reinvested
  - f. Net Income after purchasing power of principal being maintained (inflation factor at \_\_\_\_\_%)
  - g. The Foundation's Endowment Fund - based on *UMIFA* and using a payout of 4.5% (currently for 2007) of a rolling 3 year (12 quarter) average of

the market value of the Fund.

- 2. Will spending be made to:
  - a. Church's total annual budget
  - b. Percentage only to annual budget
  - c. Fixed amount to annual budget
  - d. Specific
    - Programs
    - Missions
    - Buildings and Maintenance
- 3. What provisions do we make to handle intended goals of a restricted gift that no longer exists or is no longer needed?
- 4. Unrestricted gifts:
  - a. Can capital ever be spent?
  - b. Is there a minimum size to go to permanent Endowment Funds?

#### **EXISTING ENDOWMENTS**

- 1. Recommend that records be checked regarding all existing Special Funds from church records or Probate Court concerning restriction and donor directions. Trustees should periodically review the accounts to ensure that donor wishes and/or intent are being honored.
- 2. Usually no guidelines exist for funds that may have been around for 100 or 200 years. Will new policies be applicable to those existing funds? If not, what?

#### **IN GENERAL**

- 1. It is recommended that outside professional investment management be utilized. Money and its uses can create conflicts in many ways in the life of a church.
- 2. Endowment Policy should be made available to church members.
- 3. Endowment Policy should be reviewed at least annually by committee
- 4. Churches that spend time and effort creating an Endowment Policy are freed up to be "the Church," saving energy of individuals, avoiding conflict in the church, and creating goodwill in the community.
- 5. Churches that have been "accumulating" their Endowments need to consider upper limits in proportion to needs and size of the church.